

Energy Advisory Board Minutes
Meeting 1
June 29, 2001

A meeting of the Energy Advisory Board was called to order by Governor Patton at 2:00 p.m. on June 29, 2001.

Members present: Governor Patton; Mr. George Siemens, Utility Industry Representative; Mr. Haydon Timmons, Utility Industry Representative; Mr. Tom FitzGerald, Kentucky Resources Council; Mr. C.K. Lane, proxy for Mr. Robert Addington, Coal Industry Representative; Mr. Donald Daily, Industrial Consumer Representative; Mr. Bill Daugherty, Oil and Gas Industry Representative; Secretary James Bickford, Natural Resources and Environmental Protection Cabinet; Deputy Secretary Redmon Lair, proxy for Secretary Ron McCloud, Public Protection and Regulation Cabinet; Mr. Gene Fuqua, Executive Administrator, proxy for Secretary Gene Strong, Economic Development Cabinet; Mr. Martin Huelsmann, Chairman, Public Service Commission; Mr. John Davies, Director, Division of Energy; Dr. Ari Geertsema, Director, Kentucky Center for Applied Energy and Research.

Governor Patton noted a quorum was present and that the press had been notified regarding the meeting.

Governor Patton stated that Kentucky has the advantage of being a low cost producer of energy and that benefits the citizens and businesses and is one of the reasons that Kentucky's economy has been growing for the last decade. Low cost energy can be an even more important element of our economic prosperity in the future, according to Governor Patton.

With twenty-four (24) new proposed electric generating plants for Kentucky, Governor Patton noted that the main goal of the Board is to provide recommendations to the Governor on what Kentucky should do to ensure that the Commonwealth continues to have a low cost, reliable, adequate supply of energy, and the ability to transmit it.

Governor Patton also brought attention to the Board that a moratorium on applications for electronic generation was executed on June 11, 2001 in order to take a look at the environmental impact of the existing applications. The Governor also feels that the state's energy should be utilized as an economic development tool so that it is an overall benefit to the state and the focus should broaden through the Energy Advisory Board.

Mr. Tom Dorman, Executive Director of the Public Service Commission reported on the status of hiring an Executive Director. As of the meeting date, twenty (20) responses from across the country had been received according to Mr. Dorman.

The deadline for accepting applications is July 1, 2001. Mr. Dorman noted that shortly after the date of the deadline, the interview process would begin.

Mr. Denis Fleming, General Counsel, Office of the Governor presented an overview of the executive orders which created and expanded the membership of the Board and the order which placed a moratorium on new electric generating facilities in Kentucky.

Mr. Fleming noted that the Board should operate as an advisory board that will work with the Governor and make recommendations in areas of policy that either can be implemented by the Governor or that the Governor can recommend to the General Assembly.

Mr. Fleming stated that the Public Service Commission shall staff the Board and work with the Board on the hiring of an Executive Director. Mr. Fleming went on to note that the order allows other Cabinets to work with the Board, as well, and provide needed information.

Mr. Fleming noted that although the focus of the Board is broad based, the main long-term responsibility of the Board is to begin the development of a coordinated statewide energy plan. Other issues Mr. Fleming noted that were to be addressed relate to the approval of the new applications of the merchant power plants and what the role of the Public Service Commission and Natural Resources Cabinet should be. Mr. Fleming stated that the recommendations should be made to the Governor by December 7, 2001.

Mr. Fleming noted that the Executive Order which places a 180 day moratorium on applications for new power plants in Kentucky, effective June 11, 2001, relates to the acceptance for new applications for air, water and waste discharge permits as well as the certificates of convenience and necessity that Public Service Commission issues and the certificates of environmental compatibility.

Mr. Fleming stated that a couple of issues behind the moratorium include determining the stress that would be put on the transmission grid due to the large number of proposed plants and the absence of jurisdiction by the Public Service Commission to regulate the plants.

Secretary Bickford, Natural Resources and Environmental Protection Cabinet provided the concerns of the Natural Resources and Environmental Protection Cabinet related to the new proposed plants. Secretary Bickford noted that the Natural Resources and Environmental Protection Cabinet will provide the Governor with information and recommendations so that the Board can make decisions that will protect the Commonwealth's environment and its economic well being with regard to current and future generation. Secretary Bickford added that the major issues facing the state on the environmental front are to evaluate how increasing energy supply and production impacts air, land, and

water resources. Secretary Bickford noted that the Cabinet will do an assessment on environmental quality of the cumulative effect of the proposed plants.

Secretary Bickford affirmed that demand is outpacing supply, which, in turn, is driving prices higher. Kentucky needs to rediscover the demand-side opportunities and apply initiatives that make sense. Secretary Bickford noted that energy efficiency works most effectively when implemented through a combination of public and private partnerships coupled with government encouragement and programs.

Secretary Bickford stated that the Board would need to develop policies and recommend strategies that will support the Governor's intent to ensure all citizens have access to affordable, reliable energy in a clean environment.

Mr. Gary Gillis, Commissioner, Public Service Commission presented regulatory issues facing Kentucky. According to Commissioner Gillis, the Public Service Commission is looking into whether the state will continue to have adequate generating capacity to meet future demands of the electricity customers. Another issue, Commissioner Gillis brought to attention was whether Kentucky would continue to have adequate transmission capacity to meet the future demands of consumers as well as demands of merchant power plants.

Commissioner Gillis stated that the wholesale electricity market appears to be maturing and a significant volume of power from other states' utilities may be wheeled over the Kentucky transmission grid. The Board will need to discern what steps should be taken to strengthen the grid and what siting issues are likely to occur and how they should be addressed, Commissioner Gillis noted.

Mr. FitzGerald asked for staff to collect information as to the availability of capacity, amount of that current capacity that is being sold wholesale and wheeled to other states as opposed to being used to meet native demand. Mr. FitzGerald also asked for information regarding the current native load in terms of base load and peak demand in various sectors over the last ten (10) years.

Mr. Gillis responded that an administrative case that is opening at the Commission will address those issues.

Secretary Bickford stated that the primary role of the Natural Resources and Environmental Protection Cabinet should be to utilize its expertise to fully identify the cumulative environmental impacts associated with an increase in power plants. Assessment must not only include evaluation of direct impacts on the air, water and land resources, noted Secretary Bickford, but must also include effects plants would promote such as increase in fuel production and transportation.

Secretary Bickford stated that the Cabinets secondary role in the process is to provide support to the other agencies as they evaluate financial, economic and infrastructure demands that an influx of new power plants would create.

Mr. Aaron Greenwell, Director of Financial Analysis, Public Service Commission, informed the Board that in the near future the Public Service Commission would issue an order establishing an administrative case to review the adequacy of Kentucky's generation capacity and transmission grid.

Mr. Greenwell added that the Commission intends to work with jurisdictional utilities as well as representatives of TVA and city-owned systems to assemble a statewide electric flow analysis model to identify potential restrictions of Kentucky's transmission grid under various scenarios.

Being no further business, Governor Patton adjourned the meeting.